

Kathy Freeman Company's  
**LEADERSHIP INTERVIEW SERIES**

A Conversation With

**JAMES CARNEY**

Head of Business Analytics

**MORNINGSTAR**

CELEBRATING  
YEARS

**25**

| Kathy Freeman Company

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## Kathy Freeman Company's Leadership Interview Series

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The Leadership Q&A Series is an ongoing set of interviews with investment industry leaders from Asset Management, Brokerage, Wealth Management, Investment Consulting, and Fintech. This series was launched in celebration of Kathy Freeman Company's 25th anniversary. It is designed to gather insight from key industry influencers about the evolution of their market segment over the years, projections on opportunities and challenges ahead, and leadership lessons learned throughout their successful careers.



## Leadership Q&A with James Carney of Morningstar

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James Carney is a serial entrepreneur, CEO, a builder of tech-enabled business and a recognized Fintech leader. He is currently the Head of Morningstar's Business Analytics unit. Previously, James founded ByAllAccounts, a data software and analytics firm he sold to Morningstar in 2014. Prior to that, he launched tech startup companies including Workgroup Technology Corporation and Bidder's Edge, Inc. In this Q&A with Kathy Freeman Godfrey, James shares his perspective about technology, leadership and the future of Fintech.

**James Carney**  
Morningstar

## What are some of the key trends you're seeing with regard to technology and the investment industry?

The industry is undergoing a digital transformation on three levels. First, we're moving operationally from manual to digital. We're getting more streamlined in how we do things. Second, the user experience is being redefined. Increasingly, the user experience is a digital one. Third is deep customer engagement. Engagement is about giving users the ability to take a specific action – transfer money online, request a white paper, or contact a wealth advisor. The goal is to make things more predictable and remove friction from any transaction. This digital transformation is a major shift that is affecting companies in the investment industry, as well as the entire global economy.

## How does this transformation benefit firms in the investment industry?

It is making them much more efficient. They are realizing greater operating leverage. As important, digital transformation often improves the user experience, so that's a double win. When you accomplish this, you create a great brand. A strong brand increases the likelihood people are going to stay with you and do business with you again and again.

## What do companies need to do to strengthen their brand as technology redefines business and the customer experience?

An existing brand could be 20 years old or more, but today, you have to build a digital brand as well. The digital brand has to match the quality and consistency of your legacy brand. This is critical to long-term profitability and viability. Millennials and others won't have anything to do with you without a high-quality, digital brand.

## How is the investment industry doing with digital transformation?

Fairly well, actually. The amount of effort and resources being devoted to digital brands is substantial. We're seeing that reflected in job titles. Five to ten years ago, there weren't very many Chief Digital Officers. Now, probably 40% of firms or more have a Chief Digital Officer. In some cases, they report to a CEO, the CMO or both. The point is that the role is focused on the whole digital transformation of the business. That's where the industry is really investing. They're not just spending dollars; they're putting someone in charge to spearhead their efforts.

## As a fintech leader, what impact is innovation and technology having on the business models of investment industry firms?

Fintech is truly disruptive. Because we are changing the business model, we're changing both the cost and revenue sides of the equation. We're treading on new ground, and the path is not always clear. During the transition, you may not get the full benefit from a profitability standpoint, but you have to do it to get there.

## Does digital transformation mean less or more interaction with clients?

I think there will always be engagement with a live human in some form or fashion. But the need to talk to a real person should decrease if we do this right – if it is a quality customer experience. You should be able to get the answer the first time, so you don't have to make a phone call 80% or 90% of the time.

## How is digital transformation guiding what you're doing at Morningstar?

It's interesting. Morningstar has been in digital transformation mode almost since day one. They initially put fund information on paper and then on CDs. The minute they got into CDs, they

were in the digital world. They have continually innovated to allow clients to create their own digital experiences, whether its supplying big data, APIs, widgets or portfolio analytics. For us, the digital world is our world. That's where we live.

## Do you think your mandate at Morningstar is to help asset management firms adapt to AI and other innovative technology?

Yes. The good news is that asset management firms and others in the industry are very interested. The reason is straightforward. They've been under siege. The whole active versus passive debate has placed significant margin pressure on active managers. They are having to adapt their business models, including going direct to investors.

## Will firms that previously sold through intermediary channels succeed in going direct to investors?

It depends. Technology is an enabler, but marketing costs – generating demand – is the tough part. Some well-known funds probably have the budget, but most of them can't afford marketing costs of \$20 million or even \$40 million a year. It's challenging because asset management firms are also telling the marketplace they have to take costs out of the model. The optics of a big marketing spend can send the wrong message.

## Is there anything else you would like to add about your work at Morningstar?

Morningstar has always focused on serving investors, either direct or indirect. To achieve that, we look at lots of data, and we continually ask ourselves: How will this help our clients? How do we use our business analytics to provide more insights? What have we learned that we can share? All of this work has produced a very good outcome — the development of a global risk model. At the end of the day, everything is relative to risk.

## What leadership skills are necessary to operate in a digitally transforming world?

We have to listen to what others are doing, particularly start-up firms. They can teach us a lot. Whether they make it is not as important. The point is that their efforts can get us thinking about innovation in a different way. What are the problems emerging that other companies are addressing? How could we flip them on their head and do it differently?

## What other leadership traits do you think are essential today?

Leaders need the courage to fail soon and fail often. You're not going to have big wins without swinging the bat and missing. At a smaller, privately-held company, that's more acceptable than at a big, publicly-traded company where everybody's watching. I personally don't think publicly-traded companies should be any different than the startups. At Morningstar, we're willing to take chances, and we're willing to fail.

## But do you think leaders in the investment industry are willing to fail today in order to innovate?

Some executives who have been in the industry for 20 years are willing to consider change. They are not dinosaurs. They're willing to say, "Maybe I don't have all the skills, but I'm going to get the people who do have those skills." That's the job of today's leaders – identify talented people and recruit them. That includes bringing in people with different styles – people who are willing to push the envelope. It's really up to the leadership of the firm to make that happen.

## With the tight market for top-tier talent, what do you think motivates people to switch firms?

When I've seen folks move, it is usually for a new challenge. They want to do something they haven't done before. That means helping a firm enter a new geographic market or roll out a new product. I've also seen people move because they want more autonomy. They want the opportunity to be more creative and think out-side-the-box to solve problems. People today are really much more conscious about making a "good move." Greater challenge, more autonomy and the opportunity to be creative are the key drivers.

## How should the industry attract more Millennials, many of whom are choosing more exciting industries like technology?

Millennials are very willing to work hard, but they want to have a voice. It doesn't mean you have to do everything they want. But it's important to listen to their ideas. They want an opportunity to participate and contribute. They don't want to be stuck in a cube doing the same thing every day without any challenge.

## In terms of industry consolidation, who is winning and who isn't?

The firms that are winning have created a team and infrastructure to pursue opportunity rapidly and create a better user experience. The firms that are losing are not investing to the same extent. I think that's going to drive more consolidation, especially in the RIA space. As firms consolidate and get bigger, it will get harder for smaller firms to compete. Larger firms will have more money and expertise. I think smaller firms could be in a very tough position as the market continues to evolve.

## What motivates you to take on the world each day?

I want to leave a mark on the world. It may be tiny, but I want to be able to look back and say I provided or created something of value. I made something better. That's very important to me. And, of course, working with smart people is a real motivator. I'm still learning every day. As long as you're learning, things are good.

## Celebrating 25 Years of Success

Kathy Freeman Company is a woman owned, retained, executive search firm serving the investment industry for the past 25 years. The firm offers to its clients an unparalleled understanding of the full lifecycle of the investment landscape. Its consultative approach, experience, judgement and national network of relationships makes Kathy Freeman Company the go-to partner for companies looking to hire top-tier executive talent reluctant to make a change.

## The Perfect Fit

Kathy Freeman Company takes inspiration from its clients who have demonstrated success predicated on process, discipline, and a commitment to excellence. The firm's search work is based on a customized methodology developed and refined to create the best fit for each client. Less than 1% of Kathy Freeman Company's engagements have resulted in a replacement search – an exceptional track record in executive search. This repeatable, process-driven approach and methodology instills confidence that these well-executed searches will produce a successful return on investment.

